

**Initial Training Course for the Developers
in the Republic of Kazakhstan**

Republic of Kazakhstan

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I. Introduction

For all intents and purposes the housing industry of Kazakhstan is at a standstill. With the breakup of the Soviet Union, the system of state-built and state-allocated housing has come to a halt. In October 1993, the President of the Republic of Kazakhstan issued a decree which had the purpose of ending 70 years of government housing and starting a market housing system.

ICMA, acting as the technical assistance contractor for U.S. AID, was asked by the Kazakhstan government to provide training in the field of market-driven development to a large group of selected professionals. The first such training, described in this report, was provided in early June, 1994.

As a result of this week-long effort, three conclusions became apparent:

- First, some intermediate form of development, between the former central planning and the purely private sector system of housing production, will have to be developed;
- Second, because of the language barriers, future training programs have to find a better way of translating the complexity of development;
- Third, without some form of financial assistance to re-start the building industry even the best training possible will remain largely theoretical and not practiced. In the final section of this report these three issues are spelled out and solutions are suggested.

The agreement between the International City/County Management Association (ICMA) and Abeles Phillips Preiss & Shapiro (APPS) for consulting services required a trip and exit report as part of the Republic of Kazakhstan (ROK) "commercial developer" training program contract. This document fulfills this requirement.

In addition to meeting the contract requirements, this report will (1) set out suggestions for improving such training in the future and (2) outline a suggestion for implementing the lessons of the training program.

Background to the Training Program

The Republic of Kazakhstan (ROK) is currently reshaping its economy from a planned to a market economy. Part of that effort is to encourage the growth of "commercial developers" (CDs). The objective is for CDs to take over the housing function from the existing government housing system. The ROK government has adopted a policy of converting national and regional public construction organizations into commercial developers. The training program, undertaken by ICMA, was designed to introduce the U.S. theory and practice of residential development to the leadership and staff of such potential commercial housing producers. The training program was, therefore, designed to provide instruction to people who would become real estate developers or work for them.¹

During the training program it became evident that from the Kazakhstani perspective, CDs were not developers as understood in the United States. Today in ROK, CDs want to act more like a U.S. housing contractor and builder, with perhaps some amount of developer skills.

During both the development of the training program and its delivery in the ROK, PLA was assisted and directed by Wallace Kaufman (WK), the resident director of the ICMA office in Almaty.

¹For the foreseeable time, most ROK CDs will maintain a relationship with some part of the Ministry of Housing. As currently understood, most of the new CDs will be part of the government's housing establishment working within a private market setting. In addition, there are a few people outside of government who are moving in the direction of becoming true developers.

Meetings with Other Officials

While in Almaty, the capitol of the ROK, PLA, as required by the ICMA/APPS contract, offered to meet with the US Embassy AID representative. The local USAID representative did not see any need for a meeting or briefing.

At the request of the First Deputy Minister of Housing, Bair Dosmagambetov, a one-hour debriefing was held on Monday, June 13. The ICMA resident advisor, WK, attended that meeting. The Deputy Minister's primary interest was to determine the next steps to be taken in training his ministry's commercial development leaders and in implementing the ROK's program for the private sector housing. The response to this concern is discussed in detail in Section III of this report.

The Appendix: Additional Information with this Report

Most of the material developed and used in the CD training program is included as appendices of this report. Some of the graphic material, all of the overhead projection material, and reference book, as well as all of the material translated into Russian were left with the ICMA office in Almaty.* In addition, ICMA provided a number of documents dealing with specific parts of the development process written in both English and Russian. This material was reproduced in Almaty and provided to each of the students as part of the course material. Copies of this material are available at the ICMA Washington office.

The following is a brief description of the appendix materials:

Appendix A, The Instructor's Course Outline

This outline covers all of the material presented during the course, with the exception of material introduced in response to student participation.)

Will be included in final report

Appendix B, The Student's Course Outline

This is a summary of the course provided in outline form and format for overhead projection.

A copy was translated into Russian and was given to all course participants. Students used the outline both for note-taking as well as having an overview of the entire course of study.

Appendix C, Three Pro Formas and Graphic Materials

In the original course design it was intended to use three economic pro formas of development as a teaching tool. For reasons described below, that was not feasible.

Appendix D, List of Thirty-Two Student Participants and their Affiliations.

According to the ROK Ministry of Housing and the first attendance count, thirty-five students participated. At the time the students were requested to fill out their job positions and affiliations, only thirty-two were in attendance.

Appendix E, Student Comments

Included in this appendix are both the original Russian version and a handwritten translation of the students' comments. This section also includes one letter of appreciation from a student which was not translated due to the lack of time.

II. The Training Program

A. Development of the Training Program

APPS worked out an outline for the five-day training program. The ICMA Washington office provided additional written material, in both English and Russian, related to the development process. That material was used to supplement the course outline.

During May, this outline went through a number of revisions as a result of review and comments from the ICMA office in Almaty. Through this process, the training course attempted to reflect those issues and concerns that would be relevant to the ROK participants. The outline, after final review by the ICMA/ROK office, was converted into the training program used by APPS.

A summary of the course outline was translated by the ICMA/Almaty office into Russian and given to each participant at the start of the course. The detailed course outline was used by WK and Frecia Johnson, who assisted in the presentation of some of the course material. Both the detailed and summary course outlines are provided in the appendix to this report.² Additional graphic material was translated into Russian.

B. The Setting for the Training Program

The training program began on June 6th and ended on June 10th. The course was given in the main lecture hall of the Ministry of Housing in Almaty.

²A hard copy of all materials and a copy on disk were provided to the ICMA office in Almaty.

Together with the participants, WK and PLA worked out and obtained agreement from the participants on a daily schedule. Classes started promptly at 9:30 AM with a break at 10:40. The second session was from 11:00 to 12:30. Class started after lunch at 2:00 PM. Extreme heat and humidity were a problem. Depending on how hot the room was and the difficulty of the material, there were two or three short breaks until the end of class at 4:30.

There were active discussions between the ROK and the US participants during all the breaks and the lunch. While there were exceptions, almost all of this informal part of the program dealt with material that had just been presented. This was made possible by ensuring that an interpreter was available at all times. In the event such a course is presented again, an effort should be made to further increase the informal contact between the US and the local participants.

C. The Participants and Instructors

A list of the attendees and their affiliations is in Appendix D. Attendance was fairly good, with all 35 people attending. The low point was an attendance level of about 80%.

The list of the attendees indicates that almost all of the participants were senior government officials. They all held posts either in national or various regional offices of the Ministry of Housing. There was a nearly even representation of people who were in policy and those in technical positions. The participants are individuals who the government expects will take the lead in introducing competitive market practices. A number were persons designated to head up commercial development companies. Only two or three of the participants appeared to be truly in the private housing sector.

Ages of the participants ranged from early 20s to late 50s or early 60s, with most in their 40s. This may be significant because research on the characteristics of entrepreneurs consistently shows that in market economies and the developing world outside the former communist countries, entrepreneurs typically begin their market activity in their early thirties. Research by World Bank teams in Eastern European countries, however, has shown that entrepreneurs there have typically been in their early 40s.³ It appears that the Housing Ministry selected the right type of people to attend this training program.

The level of knowledge and background among the participants varied widely. This made it a necessity to spend considerable time on some simple development concepts and terms.

Participants appeared to take extensive notes during the lectures. Having the basic course outline in Russian, with ample room for notes, seemed helpful to many of the students. This was encouraged first by the early announcement that there would be a final examination. Passing the exam would earn the student a certificate.

In terms of the teaching process, it was important to use as much of PLA's time with the students as possible. Yet, given the physical setting, the difficulties with the translation process, and some of the other problems discussed in this report, five hours of teaching for five days proved to be very demanding. Recommendations for dealing with these problems are set forth in Section III. The problem of "jet lag" and having to teach for five hours a day had been anticipated by WK. WK suggested that Ms. Frecia Johnson, an American commercial realtor living in Almaty, and Wallace Kaufman take on the task of presenting some of the material. Both FJ and WK were able to use the outline and maintain the integrity of the program.

³This material on age was reported to PLA by WK based on work done by Webster and Kaufman, 1990-1993.

Knowing something about housing in Kazakhstan proved to be very important for conducting the course. For two days prior to the start of the course, WK was able to show PLA some of the local building projects and generally made him aware of the current status of housing in the ROK. On one occasion, two local housing officials were able to show WK and PLA a proposed housing site. In the process of teaching, PLA was able to refer to local housing situations when an example was required. Because of his extensive local knowledge, WK was able to bring other local materials into the teaching process. In any future course, it would be very useful for the instructor to have at least a few days available to become familiar with local housing costs, practices, and policies.

As soon as the class discovered that the instructor was willing to depart from the course outline, they began to discuss problems related to converting from a planned system to a market housing system. A major question put to PLA in many different forms was "Given the situation in the ROK, what kind of housing program can be undertaken now?"

In any future course, time should be allowed to accommodate student-generated discussions. It is important to be able to accommodate these areas of interest, as a great deal of information can be conveyed through these discussions.

D. Review of the Training Course

About 70 to 80 percent of the material contained in the original outline was presented. Some of the material was lost because there was just not enough teaching time. The translation process consumed far more time than had been anticipated. This problem is described in a separate section of this report. In addition, some materials were dropped because it became evident that the content was not useful. The reasons for dropping material are described below.

1. Some of the material turned out to be too difficult or advanced.

The course was prepared based on the assumption that participants would have a basic understanding of the development process. This was not the case. Most of the students had almost none of the fundamental knowledge one would expect from a group taking a course in development. More time had to be devoted to explaining basic real estate and housing concepts than had been anticipated. Conventional terms used in development to describe the process had to be explained. In some cases, the material had to be presented more than once before the group seemed comfortable with the material.

For example, the course included three economic pro formas. A considerable amount of time was needed to define the term "pro forma." While it was possible to go over the economics of a simple project with one housing type, a complex development with a number of housing types built over many years was simply not suited for presentation.

2. The participants were not interested in the theoretical or historical aspects of development.

Perhaps it was related to their past political experience, but most of the participants were not interested in material which dealt either with the theory or the history of the development process. For example, there was a section on the history of U.S. development intended to show how the process evolves in a market economy. Most of the students did not see any relevance in the history of the US development industry in relation to the present situation in the ROK. Only at the end, when the discussion centered on what the current activities of emerging developers could be, was there any recognition that past experience in other countries had relevance to the ROK.

3. The participants appeared to be far less interested in the work of a "pure" developer than that of the builder or contractor.

Most the participants did not view themselves as potential developers or as working for development companies. Working with their own equity or using debt or having serious liabilities was difficult for them to comprehend, and once they understood, it was hard to accept. This attitude made sense since none of the participants had been involved in activities that required equity, debt and risk. In addition, none of the participants could appreciate the rewards of successful development. Finally, there was no model of a local successful and appreciated developer that the students could relate to.⁴

Most of the participants expect to continue to work for their government agencies. Therefore their interest was directed at how they could operate as government employees and survive economically within a market setting. Their focus was on how to become effective builders and contractors building for the private sector with government backing. More information on the orientation of the participants will be discussed in Section III of the report.

4. There was substantial interest in any material that dealt with "how to" issues.

At times the course started to become a "how to" course for builders. For example, there was a great interest in how a contractor can insure the work of subcontractor and how that subcontractor can insure the performance of materials and supplies. A number of times the students would raise the issue of what the instructor would build if he were operating in the local market.

⁴One of the interesting issues which came up during the course was the social appropriateness of a developer being well rewarded for his economic success.

This interest in "how-to" subjects adds weight to the thought that participants were concerned with becoming effective government-paid housing producers in an emerging market-housing economy. While most of the participants will remain within government, their view of the shelter sector from the perspective of developers will start the process of changing of how government will work in the future.

E. The Language Problem

The amount of time lost for the process of translation was substantially underestimated. Even cutting out of some of the details, the translation process affected how much material could be presented in the available training hours. Going from English to Russian reduced training time by at least half. Some way has to be found to provide more material in Russian if there are no Russian-speaking instructors. Adding to the time lost in translations was the need to spend a significant amount of time on defining words and terms of development.

A considerable amount of translation time and effort went into defining the technical terms used in the development process. Such basic concepts as equity, risk, market price, and production cost required detailed explanations. Adding to the difficulty with such basic terms is the fact that the two interpreters, both of whom were motivated and reasonably skilled, would differ on what certain words and concepts meant.

In any future training program, whether it be in development, legal aspects of land use, appraisal work, etc., a translated glossary of terms, should be the subject of the first hours of instruction.⁵ Conveying the meaning of western words and concepts at the start would reduce the loss of time and energy for people who do not understand the language of

⁵Such glossaries have been gathered by ICMA and will be integrated more formally in future editions of the course.

market real estate. There was some time for briefings interpreters prior to the course, but, in light of the difficulties encountered with basic terminology , more formal and extensive preparations of interpreters would be warranted as well.

One solution to the language problem is to use simultaneous translation. Based on past experience with simultaneous translation as a solution to the language barrier, it is expensive, difficult to arrange, and less than 100 percent effective.⁶

Another solution is to have the basic course material in easy-to-understand Russian terms with as much graphic material as possible. This pre-packaged course material would be presented along with the translated lecture material. In this context, the instructor not only teaches, but also emphasizes and reviews material, answers questions, and deals with new areas as they arise from the discussion. How such a teaching system could be structured is addressed in Section III.

Included in the original course outline was a series of demonstrations of development economics. The course design included showing the economic effect of changing unit size, costs, and market factors on the economics of a project. The teaching design called for showing different results on a large TV monitor as the computer made the necessary calculations. While all of the electronic parts were brought together and actually tested, the electric service to run the TV failed after the test runs. In practice, the logistics and time loss of traveling to and from the site led us to deemphasize this case study.

Another part of the original outline included having the participants prepare a layout and cost projections for a local site. This demonstration was intended to use market-based development concepts. As it turned out, the selected site was too far away from the lecture site to be used without a substantial loss of time, particularly in light of the longer than

⁶The economics of simultaneous translation may work if there is a large number of participants.

anticipated time required to cover core elements of the curriculum. In the future, it might be desirable to prepare a case study relying on packaged materials. In the future, with more lead time than was available for this seminar, it might be desirable to prepare a case study relying on packaged materials.

F. Creation of a Learning Incentive.

Both PLA and WK were concerned about how to get the participants to take the course seriously by actively taking notes, participating in discussions, and asking questions when the material was not clear. It was known that in the past, government officials were required to take courses imposed from on high. As a result of taking such a course, the participants were given "letters of appreciation." Just attending the training program resulted in "letters" to all the participants. These ubiquitous "letters" had the effect of making a typical training course of little or no value.

WK came up with a different incentive to take the course seriously. The incentive was a formal certificate that could only be earned by achieving a high mark on a final exam. All participants were told that there would be a two-hour examination at the conclusion of the course. As a result, most of the participants took the course seriously; when a subject was discussed and some of the words or concepts were not clear, the students clearly wanted to know the material in anticipation of the final exam. During the course, WK created the questions for the exam. This exam was given on the final day of the course. In talking with the participants, the fact that only a few certificates were awarded made them of real value to the participants.

The ICMA staff was able to arrange for the printing of very impressive "Certificates of Achievement" presented to all the students who achieved a passing grade. Approximately one-third of the class had a passing grade, and earning the certificates was clearly very meaningful.

G. Evaluation of the Training Program

It is difficult to evaluate the success rate of such a training program. Many of the participants came from far away. A week in Almaty represented an opportunity to see friends, shop, and do many of the things that are impossible in the outer regions of this large country. Perhaps one measure of success was the fact that everyone stayed right up to the final hour on a hot Friday afternoon. During the course, almost everyone participated, and for many the participation was very active.

Another measure of the success of the course, although a mixed message, is that only one-third of the participants received a passing grade on the final exam. However, a review of the examination papers indicated that with 4 or 5 exceptions, every participant learned most of the course material.

PLA requested that during the last night of the training program the class provide their own evaluations of this training effort. Copies of the participants' comments, both in Russian and an unedited translator's version, are part of the appendix.

III. Substantive Issues

A. Understanding the Local Housing Sector

Throughout the course many of the participants' questions and concerns were framed in terms of their housing and development experiences. Like housing people anywhere in the world, the participants wanted to understand the course material in terms of local conditions.

Some effort was made to accomplish this within the constraints of this initial seminar. In any future course, it would be very useful if more of the demonstration materials, laboratory or field work, and illustrations could be developed using local examples. It is much easier for people to understand examples of concepts when they are given in meters and local currency.

It is important that anyone giving this or a similar course should have some working knowledge of the local housing product and how it is produced. An understanding of local costs and development standards was also found to be very valuable. Both PLA and WK found that during the course, students needed to frame their questions in terms of their local conditions. Having a few pre-teaching days available to learn the local shelter economy is costly, but the knowledge gained from these days will add to the quality of the course and the students' ability to accept the material.

B. Participants Want to Become Market-Directed Government Builders, Not Private-Sector Developers

The mandate for the course was to present western style residential development. That mandate assumed that the participants would soon be in the private sector, if not already. A review of the list of attendees shows that this was not the case.⁷ Nearly every participant worked for some part of the national housing administration. In talking with the participants, there was no indication that this situation would change in the near future. At least two participants were already working outside of government. Further technical assistance training should reflect this situation. Under current economic conditions, there is no obvious way in which any significant number of the participants, as individuals, could set up private sector housing production operations. This is true for both the construction and the development process.

However, what may well happen based on experience in another former socialist country, is that parts of the government housing establishment will spin off and be the start of private sector firms. Any government housing professional would face at least three fundamental problems in shifting from the public to the private housing sector. First, the participants either have no access or very limited access to equity. Without a proven record of success, they would have limited access to the needed equity. Second, at present, there are no facilities for construction or permanent lending. There are a few hints that the necessary economic climate for such vital long-term funding is about to appear.⁸ Finally, there are no local examples of successful private sector projects to act as a guide for emerging developers.

⁷There are only 32 names on the list, but when participants were counted a number of times during the course there were 35 people present. It is assumed that when people were asked to fill out a detailed attendance list, three people were absent.

⁸WK points out that over the past few months, the exchange rate between the dollar and tenge has become settled. This may be the first indication of stabilization of the currency.

While the above suggests a very difficult and long-term transition to private sector development, there are steps to be taken to start this process. Almost all of the people attending the program did not see themselves as becoming U.S. type developers in the foreseeable future. Their focus appeared to be on becoming market-oriented builders working for government.⁹ Most participants were interested in how, within their existing government institutions, they could start *building* for the private sector. If another course is presented, it should be based on the assumption that the participants, working for government or related organizations, will start housing production based on market forces. When the financial and organizational infrastructure for private sector housing systems is established, then today's government developer will go private.

It is useful to recall that a model for this transitional process does exist; it is close to what occurred in Israel from 1948 to the present. Israel's current highly competitive housing development industry emerged from the government housing system. Initially, government spun off a variety of housing companies. Both directly and indirectly these companies were dependent on government for their economic existence. As the government withdrew its direct support, these companies gradually became private housing companies. Builders and small-scale contractors who worked either directly for government or the housing companies slowly emerged as the producers of government-sponsored housing. In turn, with experience and a build-up of equity, they became today's developers.

Any future housing course should be based on the premise that most of the participants will be a part of government or its emerging development offsprings. Government will still be the prime developer in the near future. Its employees will act as builders and contractors attempting to build for a profit and in response to the market place. Future courses should have practical material on the role of the contractor, the subcontractors, and builders.

⁹It is worth noting that when Israel moved from government-produced housing to private sector housing, it resorted to housing companies that originally were set up by the government.

Courses should emphasize how new developer groups coming out of government with limited resources can add to the housing supply while generating both income and the potential for the start of a private housing production system. Even the opportunity to fail is important because it starts the process of weeding out those new developers who can succeed from those who cannot.

C. Creation of a More Effective Teaching System

The experience with this training program highlighted three familiar and important problems. These are (1) the high cost of a "one time" course; (2) the difficulty of translating technical material; and (3) the loss of time due to the translation process.

If similar development courses are contemplated, then ICMA, together with its client, USAID, should consider creating a packaged development training course. In the near future, one of the most important forms of technical assistance to the former Soviet Republics (CIS) is likely to be in the area of real estate development. Such a packaged course could be presented by the resident advisors with development experience or by development specialists. Since the need for such a course exists in all of the former Soviet Republics and in other former socialist economies, the development of a basic training program should involve all of the USAID contractors, not just ICMA.

Based on what was learned in Kazakhstan, the packaged teaching program should recognize the following two different courses that should be presented. One course should be for the builder-developer types. This is a "how to" course dealing with the nuts and bolts of the building and selling process. It should include contracting, job estimating, and project-based economics. It should have little, if any, theory of development and policy problems related to a transitional housing sector.

The second course should be for people who have to take government through the transition from a supply side to a market-driven housing economy. It would set out the

basics of development in a transitional economy. It would assume that most of the participants will, for the foreseeable future, work either within government or in a related company. This course has to include concepts about how the transition from government to private housing production is possible.

Both courses should also include the following: a glossary of the language and concepts of private sector building, contracting, and development; and a complete Russian version of the training program. It should be in a format for student study and review. The program would include a complete course outline as well as substantial graphic materials, pro formas, and simple visual examples of all key concepts.

Many of the items above could be illustrated on video, including the glossary and examples of developments in similar economies, either recent or historical. This suggestion comes from observing how vitally interested the ROK participants became when they were shown a short video on high density, low-rise housing in the U.S. Such a visual program would use Russian or Russian subtitles. The instructor would have a master guide in English. If such a video course is produced, it should be the product of three different professionals. First, it should be guided by an experienced resident advisor who understands the current level of understanding of the prospective participants. Second, the technical content should come from experienced teachers of real estate development. Third, it should be put together by experts in creating video teaching programs.

D. Turning Theory into Practice: A Proposal to Start an ROK Development Sector

More than anything else, participants wanted to know how to turn theory into practice. They asked this question both in class as well as in informal meetings. It was also clear that many of the participants were hoping that their participation would lead to more than just training; it was their hope that the training would lead to development activities. Contained within that idea was the hope that some form of U.S. funding for housing development could

be made available. Outside funding is especially important, as the ROK Housing Ministry has almost no new construction activity.

Based on the housing evidence that can be seen around the Almaty area, a "sites and services" housing loan would be effective.¹⁰ The widespread development of informal single-family housing clearly suggests that a major and effective housing process does occur throughout the capital region. A housing loan program designed to provide construction financing for site work could take this informal process and turn it into a traditional set of housing solutions. More important than the creation of housing, this process is one possible starting point for a development industry in the ROK.

It must be stressed that this suggestion is only a hypothesis, but it is one based on observation of local housing as well as talking with course participants. The concept has to be verified by a serious fact-finding effort. It would take a local housing advisor, a U.S. developer type, a local site engineer, and a cost estimator a week or two to determine the actual feasibility of such a "sites and services" program.¹¹

The following are some of the key aspects of the existing ROK housing sector which would impact on any sites and services program.

1. ROK interest rates are measured in hundredths of a percent. At this time, without linked incomes, permanent lending does not work.

¹⁰For the reader not familiar with the term, sites and services means the development of a piece of land ready for an owner to build his/her home. It assumes that the land and utility development has been performed by a professional with access to engineer and machinery, but that the house can be built by the homeowner with or without professional assistance.

¹¹WK believes that such a development program is very likely to be feasible without much further analysis. However, any "first" housing guarantee type loan by USAID has to be very well thought out, documented and proven to be bankable. For this reason alone it would be useful to prove WK right with good engineer and cost estimates.

2. Housing will have to be created out of current family income until inflation is brought under control.
3. There is some family savings that could be used has a part of a housing solution.¹² Many people earn money in the informal economy, in fast turnover trading and similar speculative business activities. Others earn money by selling a privatized home or apartment, or even several that have been acquired by family members through privatization.
4. There is virtually no equity in the housing production system. However, construction machinery and skilled labor are available as forms of equity.
5. Historically, a strong informal low-rise housing industry has always existed in the ROK. People know how to build small single-family houses.
6. The cost of land, a major factor in low rise development, is controlled by government. To start a housing industry, government can defer payment for the land it allocates to the program.
7. A market for small housing on small lots is well established. The central theme of such small-scale development is to sell families a small lot ready for building a starter house. The lot should be large enough to accommodate a house of about 60 square meters, which over 20 or more years can be expanded to 200 square meters. The developer would perform all the work which is normally beyond the capacity of a single family. The house is built by the family and friends or with the help of a paid

¹²People have savings either in the form of hard currency, cars or other tangible assets. It is also interesting to note that there is an active real estate market for existing apartments in the range of \$3,000 to \$10,000. These indicators suggest that there are savings that can go into homeownership.

professional. Families would buy the ready-to-use lot from savings. Families would build the house from current income. The house would be built as there is money to buy materials and skilled labor.

The lot would be in the range of 360 to 460 square meters. This is the same as a 4,000 to 5,000 square foot lot in the U.S. Frontage would be in the range of 12 to 15 square meters. Based on a very simple analysis (included at the end of this report), it is estimated that such lots would cost in the range of 85,500 tenge to 135,000 tenge (\$1,900 to \$3,000) per lot.

The following is an outline of such a development program. However, it has to be emphasized that these suggestions are based on a very limited amount of local knowledge and, therefore, need be checked in detail.

1. A set of simple, cost efficient, small lot subdivision standards and design details is developed by the ROK Housing Ministry or city or regional government working with US counterparts.
2. A set of standard development covenants are developed to insure that reasonable land use relationships are established between adjacent lots (known in the U.S. as zoning). These standards have to be as simple as possible, but, if possible, allow for local adjustments.
3. A simple land contract is established. This contract provides for ownership of the property and protection of that ownership. The individual user would have adequate protection for his investment in the land, improvements, and house. The contract would allow for the sale or conveyance of the property by the owner.
4. Based on the above, a number of 20 to 50-lot developments are planned in those regions that have the potential for population growth.

5. A housing company, a private builder or some other construction entity lays out the lots, builds the road, water, sewer and drainage systems.
6. If the economics permit, the developer provides a fully serviced foundation (which would include rough plumbing, portable water and power) for a building pad for a minimum size house.
7. The key problem facing the ROK public or private developer is how to build given the impossible long-term interest rates. From what can be observed around Almaty, small lots can be produced and sold using only a limited amount of short term debt. For periods under a few months, loans are available at rates that could be made to work if only a part of the product needs to be financed.

Based on the estimate included in this report, a site with a foundation should cost between \$2000 to \$3000. The design and approval costs would be paid by the developer. All the professional skills needed are already on the government payroll. Lots would be pre-sold from the subdivision plans. Once a sufficient number of deposits have been made on the proposed lots, the developer is ready to start. Once work is started, the developer borrows the difference between the funds needed for materials and labor and the deposits on the pre-sold lots. In effect, the construction of the site and foundation is funded from four sources: (1) the partial up-front payment for the lot, the deposit;¹³ (2) the paid labor by the Ministry of Housing for the professionals; (3) the deferred cost of the land by the national government; and finally (4) the remainder of costs in the form of a short term construction loan.

¹³Great care would have to be taken so that the buyer's deposits are well protected. One way would be to use the construction financing to subdivide and provide access for each lot. At the time the lots have real value. The deposits could then be used for the foundations and final grading costs.

The only financing would be for a part of the construction costs. For the first group of lots, once the major road, and main water, sewer, and storm systems are in, the remainder could probably be built from the buyer's deposits. The profit for the entire project would then come out of the closings on the last few lots. As final payments are made prior to conveyance to the buyers, the short-term financing could be paid off to the lenders.

While certainly there are numerous details to be worked out, the system described above does have promise if there were some amount of construction financing available. Such a program could achieve much more than a few hundred new homes. It would start the process of giving local professionals experience with a market-driven housing system. They would have to plan and build a product that is both affordable and attractive. They would gain experience working with borrowed money. For some, it would be the start of developing the equity needed to expand and get to the second phase of the housing business—building houses.

Such a program has some additional long-term benefits. It would allow people who have resources to build homes. It allows families to build their housing from current income. This is the procedure now used to build the hundreds of "dachas" or "garden houses" as well as many new buildings, expansions, and renovations of existing buildings in single-family neighborhoods. Such a program could start to create the demand for home builders that is the normal outgrowth of self-help building. Eventually it is the successful and enterprising carpenter or mason turned builder who is usually the first true developer. Such a program would provide an opportunity for banks to become involved and gain experience in private-sector housing.

For such a program to take off, some level of outside assistance would be very helpful. This assistance can be packaged in discrete portions of technical assistance:

** Local planners would need some help in designing a minimal subdivision suitable for long-term expansion.

- ** Legal assistance would be needed to create all of the legal instruments needed to implement such a program.
- ** Engineering assistance is needed to solve the problem of the massive Soviet-style foundations and potentially result in substantial cost savings.¹⁴
- ** It would provide a rational opportunity for effective lending, either by USAID or some other international lender, to restart the shelter sector of Kazakhstan.
- ** Finally, a development program, even if only for sites and services, would turn training programs of USAID into the start of a market housing economy.

¹⁴It was noted that on a local low-rise construction site in Kazakhstan, the builder was using a foundation made of massive pre-cast blocks. This was the same type of foundation seen by PLA at a high-rise site in Kiev, Ukraine. Local housing officials in ROK indicated that this was a standard foundation required because of "seismic conditions." In a post-trip review with a specialist in seismic engineering, Dr. Manuel Berberian, a senior scientist at the office of Najarian Associates, Eatontown, NJ, noted that this type of foundation was a major factor in the deaths of 26,000 people during the Armenian earthquake in December 1988. Dr. Berberian suggested that modern U.S. building standards for seismic zones would provide effective solutions at a much lower cost than the current foundation requirements based on old USSR standards